

Fed Chairman Admits in Questioning That U.S. Has "Done Nothing" to Address Unsustainable Debt Path, Democrat Tax Hikes an "Option"

WASHINGTON - In response to questions from Financial Services Committee Ranking Member Spencer Bachus on the potential for Democrat tax increases and ways to address the dangerous level of national debt, Federal Reserve Chairman Ben Bernanke admitted the U.S. has "done absolutely nothing" to develop a credible plan for a fiscal exit strategy. Bernanke agreed that today's current budget path is worse than when he last updated the Committee on the state of the economy in February, despite the Chairman's previous warnings that the debt path is simply unsustainable.

When asked by Bachus if Democrat tax increases, rather than reduced spending, should be considered, Bernanke hedged his response before stating that "all options need to be on the table," including potential tax hikes at year's end.

NOTE: Click [here](#) to view the video of today's exchange and read below for rough transcript from today's House Financial Services Committee hearing.

BACHUS: The American Economic Review, which was just published, has an article by Christine Romer and her husband David Romer. Of course, she is the chief economic adviser to the president. She says "tax increases are highly contractionary. Tax cuts have large and persistent positive output effects." Would you agree with that?

BERNANKE: I think it's a very interesting paper. I would have to say in fairness that there is a lot of uncertainty about the effects of fiscal actions. I agree with the general proposition that tax cuts have short term aggregate demand effects and they can be beneficial to growth if they're well structured in the longer term.

BACHUS: What about the tax cuts that are due to expire at the end of this year? Should they be continued?

BERNANKE: Well, there's a lot of different issues involved there.

BACHUS: How about the income tax increases that will occur if we don't extend them?

BERNANKE: As I said, there are a number of different issues there. There are, first of all, considerations of efficiency and growth and relationship between the incentives generated by that, which I know is debated and will continue to be debated. But there are also issues of both short term stimulus and long-term budget stability. In the short term, I would believe that we ought to maintain a reasonable degree of fiscal support, stimulus for the economy. There are many ways to do that. This is one way. There are other ways as well. In the longer term, I think we need to be taking steps to reassure the American people in the markets that our fiscal situation is going to be well controlled. That means if you extend the tax cuts, you need to find other ways to offset them.

BACHUS: Well either you have to raise taxes or cut spending or a combination of that, correct?

BERNANKE: The arithmetic is very clear. To get deficits down, you have to have either more revenues, less spending, or both.

BACHUS: Do you think our approach ought to be cutting spending, that would result in an immediate [level of] more confidence in the economy?

BERNANKE: I think all options need to be on the table. We need to look at all the programs for the merits both in terms of their short term stimulative effects and in terms of how well they would support growth in the long term.

BACHUS: Should we increase taxes? As the Democrats are now talking about a VAT tax?

BERNANKE: Again, the broader issue is that I believe we should maintain our stimulus in the short term. And we need to take steps to improve our fiscal situation in the longer term. There are many ways to do that. As you know, I'm reluctant to take positions on specific tax and spending measures. I'm sure you can understand my position on that. My broad view is we need to think about the short term and long term about both stimulus and growth and that all of these measures have implications.

BACHUS: Let's talk about the short term. In February, I asked you "Is the current budget path sustainable?" You said, no, it's not. Actually, I said, "So the current budget path is not sustainable, is it?" You said "Given the numbers at CBO and OMB, that's correct. That's right."

BERNANKE: That is correct.

BACHUS: It's actually worse today than it was then, is it not?

BERNANKE: I believe so, yes.

BACHUS: And you urged the Congress in pretty clear terms and answered my follow up questions that we should come up with a credible immediate plan for a sustainable fiscal exit. Is that correct?

BERNANKE: I think it's very important to try to demonstrate that we are committed to a medium term consolidation and stabilization of our fiscal situation.

BACHUS: And, you know, you also say it would become increasingly difficult if we postpone that because the cuts you'll need to make will be even sharper and the tax increases will be even greater.

BERNANKE: That's right.

Bachus: So I'd like to note for the record that we've done absolutely nothing in that regard. I think you would agree.

BERNANKE: Yes.